

Weak topline growth; focus shifts to synergies realization

Information Technology ▶ Result Update ▶ May 6, 2024

TARGET PRICE (Rs): 1,700

Route Mobile reported muted operating performance – revenue declined 0.7% QoQ, missing our estimate. Route posted revenue growth of 12.7% for FY24, missing its guidance of 15-17% (revised downward in Q3 from earlier 20-25%), raising concerns on growth predictability. Growth has been impacted by industry headwinds since Nov-23, weakness in MR Messaging, seasonality of Masivian, and devaluation of the Nigerian Naira. Realization was also hit, by business mix change with higher share of domestic volume. EBITDAM of 12.3% was in line with our estimate. New product revenue growth remained muted in Q4 and progress thus far remains slow. Management refrained from providing FY25 guidance, pending closure of the transaction with Proximus, and will offer more details, including synergy benefits, later. Growth in FY25 should be aided by ramp up of large deals, coupled with synergy benefits. We cut FY25E/26E EPS by ~3.3%, factoring in the Q4 miss and near-term industry headwinds. We retain ADD with trimmed TP of Rs1,700/sh at 22x Mar-26E EPS.

Route Mobile: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	20,020	35,692	40,233	48,480	55,275
EBITDA	2,186	4,442	5,019	6,011	7,020
Adj. PAT	1,662	3,271	3,582	3,969	4,815
Adj. EPS (Rs)	26.1	52.4	59.7	63.2	76.7
EBITDA margin (%)	10.9	12.4	12.5	12.4	12.7
EBITDA growth (%)	25.6	103.1	13.0	19.8	16.8
Adj. EPS growth (%)	22.9	100.4	14.1	5.8	21.3
RoE (%)	14.3	18.7	18.0	17.2	18.1
RoIC (%)	35.1	34.9	24.4	23.7	27.0
P/E (x)	58.7	29.3	26.9	24.3	20.0
EV/EBITDA (x)	40.0	19.9	18.4	14.8	12.2
P/B (x)	5.8	5.3	4.5	3.9	3.4
FCFF yield (%)	1.2	0.4	(1.4)	4.3	4.7

Source: Company, Emkay Research

Results Summary

Revenue declined 0.7% QoQ to Rs10.17bn, standing below our estimate of Rs10.5bn. Number of billable transactions grew to 34bn in Q4 from 31.2bn in Q3, and realizations declined to 29.9paise from 32.8paise in Q3. New product revenue declined 4.5% QoQ to Rs643mn, partly due to seasonality in Masivian. Gross margin expanded by 60bps to 21.8%, whereas EBITDAM expanded by 10bps QoQ to 12.3%, both coming in line with our estimate. Adjusted profit was Rs863mn, matching our expectations, and aided by higher other income and lower tax. Net revenue retention stood at 106% for FY24, with recurring revenue at 92%. The top-50 client concentration came down, from 78% in FY23 to 75% in FY24. The company has declared a final dividend of Rs2 per share (total dividend of Rs11 for FY24). **What we liked:** Margin resilience. **What we did not like:** Revenue miss, slow progress on new product revenue, negative reported operating cash flow (normalized OCF/ EBITDA of 56% in FY24 vs 45% in FY23).

Earnings Call KTAs

i) The CPaaS industry is witnessing some headwinds since Nov-2023 w.r.t. enterprise cost optimization initiatives, particularly from global OTTs and shifts in communication channels. Management remains vigilant of these changes and has aligned its strategic roadmap to leverage the emerging opportunities. It has secured strategic deals and laid the groundwork for a stronger FY25. ii) Management highlighted that the Proximus deal is on track, and final holding and deal closure is expected in May-24. The company will require shareholder approval for related-party transaction limit, to derive planned synergy benefits. The company is likely to provide FY25 outlook following the approval. iii) Masivian revenue declined 17% QoQ, largely due to seasonality in the business. iv) MRM's revenue declined 17% QoQ to Rs1.79bn, due to geopolitical uncertainties and one client undergoing consolidation. v) DSO increased to 80 days at the end of FY24 vs 62 days YoY. Management indicated that it received payments from some large OTT players in the first week of April. vi) India ILD volumes witnessed single-digit growth, but the decline was more prominent in RoW. Clients were cautious about spends which led to relatively lower than expected growth. Management expects ILD volumes to see growth in coming quarters. vii) Management expects material improvement in cash generation in FY25, as funding for security deposits reduces. viii) Devaluation of the Nigerian Naira (NGN) impacted revenue by Rs110mn and Rs260mn for Q4FY24 and FY24, respectively.

Target Price – 12M	Mar-25
Change in TP (%)	(2.9)
Current Reco.	ADD
Previous Reco.	ADD
Upside/(Downside) (%)	10.8
CMP (06-May-24) (Rs)	1,535.0

Stock Data	Ticker
52-week High (Rs)	1,760
52-week Low (Rs)	1,277
Shares outstanding (mn)	62.8
Market-cap (Rs bn)	96
Market-cap (USD mn)	1,154
Net-debt, FY25E (Rs mn)	-7,682
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	299.5
ADTV-3M (USD mn)	3.6
Free float (%)	42.0
Nifty-50	22,443
INR/USD	83.5
Shareholding, Mar-24	
Promoters (%)	58.0
FPIs/MFs (%)	15.8/5.8

Price Performance

(%)	1M	3M	12M
Absolute	(4.8)	(4.2)	19.5
Rel. to Nifty	(4.5)	(6.4)	(3.8)

1-Year share price trend (Rs)



Dipesh Mehta

dipeshkumar.mehta@emkayglobal.com
+91 22 6612 1253

Ayush Bansal

ayush.bansal@emkayglobal.com
+91 22 6612 1344

Pulkit Chawla

pulkit.chawla@emkayglobal.com
+91 22 6642 4258

Exhibit 1: Quarterly snapshot

Rs mn	Q4FY24	Q3FY24	QoQ (%)	Q4FY23	YoY (%)
Net sales	10,170	10,243	-0.7	10,087	0.8
Operating expenses	8,916	8,991		8,767	
EBITDA	1,254	1,252	0.2	1,320	-4.9
- Margin (%)	12.3	12.2	10.0	13.1	-70.0
Depreciation	219	216		212	
EBIT	1,036	1,036	0.0	1,107	-6.5
- Margin (%)	10.2	10.1	10	11.0	-80.0
Other income	40	130		96	
Pre-tax profit	1,076	1,166	-7.7	1,204	
Tax provided	142	180		163	
Profit after tax	952	1,136		1,041	
Emkay Net profit	881	1,057	-16.7	1,016	-13.3
EPS (Rs)	14.0	16.9	-16.9	16.3	-13.9

Source: Company, Emkay Research

Exhibit 2: Actuals vs estimates

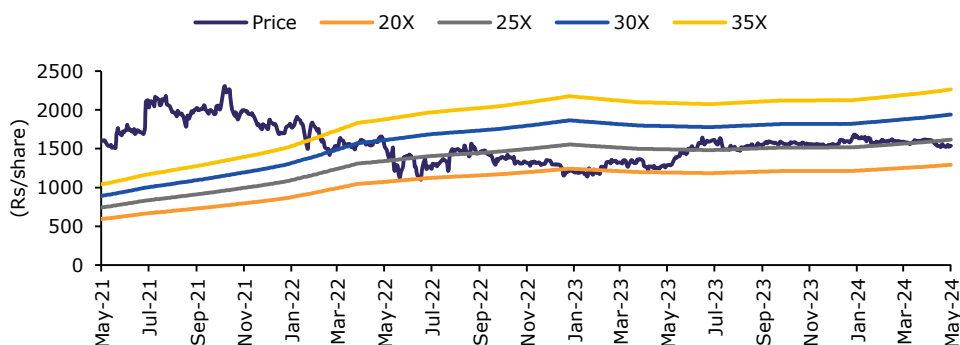
(Rs mn)	Actual	Estimate (Emkay)	Consensus estimate	variation		Comment
				Emkay	Consensus	
Sales (Rs mn)	10,170	10,491	10,552	-3.1%	-3.6%	Revenues came lower than our expectations
EBIT	1,036	1,070	1,076	-3.2%	-3.8%	Margins was in line with our expectations
EBIT, margin	10.2%	10.2%	10.2%	0 bps	0 bps	
PAT	881	863	876	2.0%	0.6%	Reported profit was above expectations due to exceptional item (Rs18mn related to fair value gain of the contingent consideration and onerous contracts), higher other income and lower tax

Source: Company, Bloomberg, Emkay Research

Exhibit 3: Changes in estimates

Rs mn	FY25E			FY26E		
	Old	New	Change	Old	New	Change
Revenues	50,055	48,480	-3.1%	57,071	55,275	-3.1%
YoY growth (%)	23.4	20.5		14.0	14.0	
EBIT	5,252	5,106	-2.8%	6,276	6,092	-2.9%
EBIT margin (%)	10.5	10.5		11.0	11.0	
Net profit	4,092	3,969	-3.0%	4,966	4,815	-3.0%
EPS (Rs)	65.3	63.2	-3.3%	79.3	76.7	-3.3%

Source: Company, Emkay Research

Exhibit 4: Route – One-year forward P/E

Source: Company, Emkay Research

Route Mobile: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	20,020	35,692	40,233	48,480	55,275
Revenue growth (%)	42.4	78.3	12.7	20.5	14.0
EBITDA	2,186	4,442	5,019	6,011	7,020
EBITDA growth (%)	25.6	103.1	13.0	19.8	16.8
Depreciation & Amortization	383	816	861	906	928
EBIT	1,803	3,626	4,159	5,106	6,092
EBIT growth (%)	21.6	101.1	14.7	22.8	19.3
Other operating income	0	0	0	0	0
Other income	201	394	496	303	479
Financial expense	52	205	273	422	387
PBT	1,952	3,815	4,382	4,987	6,184
Extraordinary items	0	0	168	0	0
Taxes	251	484	662	898	1,237
Minority interest	(39)	(61)	(138)	(120)	(132)
Income from JV/Associates	0	0	0	0	0
Reported PAT	1,662	3,271	3,751	3,969	4,815
PAT growth (%)	24.6	96.8	14.7	5.8	21.3
Adjusted PAT	1,662	3,271	3,582	3,969	4,815
Diluted EPS (Rs)	26.1	52.4	59.7	63.2	76.7
Diluted EPS growth (%)	22.9	100.4	14.1	5.8	21.3
DPS (Rs)	5.0	5.0	11.0	12.0	16.0
Dividend payout (%)	19.0	9.5	18.4	19.0	20.9
EBITDA margin (%)	10.9	12.4	12.5	12.4	12.7
EBIT margin (%)	9.0	10.2	10.3	10.5	11.0
Effective tax rate (%)	12.9	12.7	15.1	18.0	20.0
NOPLAT (pre-IndAS)	1,571	3,166	3,530	4,187	4,874
Shares outstanding (mn)	63.6	62.4	62.8	62.8	62.8

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	1,952	3,815	4,382	4,987	6,184
Others (non-cash items)	501	1,019	713	906	928
Taxes paid	(450)	(334)	(746)	(898)	(1,237)
Change in NWC	(658)	(3,768)	(5,494)	(624)	(1,067)
Operating cash flow	1,346	732	(976)	4,371	4,808
Capital expenditure	(171)	(380)	(356)	(240)	(240)
Acquisition of business	(4,131)	(810)	(1,591)	374	(700)
Interest & dividend income	115	284	222	0	0
Investing cash flow	(8,385)	1,122	(21)	(3,722)	(2,940)
Equity raised/(repaid)	8,646	(1,492)	0	0	0
Debt raised/(repaid)	(40)	1,258	2,527	(46)	(600)
Payment of lease liabilities	(60)	(102)	(109)	0	0
Interest paid	(5)	(56)	(142)	0	0
Dividend paid (incl tax)	(304)	(686)	(696)	(753)	(1,005)
Others	175	(13)	3	0	0
Financing cash flow	8,412	(1,092)	1,584	(800)	(1,605)
Net chg in Cash	1,373	763	586	(151)	263
OCF	1,346	732	(976)	4,371	4,808
Adj. OCF (w/o NWC chg.)	2,004	4,500	4,518	4,995	5,875
FCFF	1,175	352	(1,332)	4,131	4,568
FCFE	1,238	431	(1,382)	3,708	4,181
OCF/EBITDA (%)	61.5	16.5	(19.4)	72.7	68.5
FCFE/PAT (%)	74.5	13.2	(36.8)	93.4	86.8
FCFF/NOPLAT (%)	74.8	11.1	(37.7)	98.7	93.7

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Share capital	629	624	628	628	628
Reserves & Surplus	16,097	17,580	20,868	24,084	27,894
Net worth	16,726	18,204	21,496	24,712	28,522
Minority interests	21	80	213	333	465
Deferred tax liability (net)	596	481	390	390	390
Total debt	162	1,401	3,785	3,739	3,139
Total liabilities & equity	17,504	20,166	25,883	29,172	32,515
Net tangible fixed assets	290	344	361	419	457
Net intangible assets	4,066	3,655	3,220	2,549	1,886
Net ROU assets	156	324	260	208	145
Capital WIP	0	151	267	267	267
Goodwill	5,011	5,202	5,125	5,125	5,125
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	10,396	9,001	7,715	11,420	13,683
Current assets (ex-cash)	6,614	10,092	17,669	18,997	21,300
Current Liab. & Prov.	9,028	8,603	8,733	9,812	10,348
NWC (ex-cash)	(2,414)	1,489	8,935	9,185	10,952
Total assets	17,504	20,166	25,883	29,172	32,515
Net debt	(10,233)	(7,600)	(3,930)	(7,682)	(10,545)
Capital employed	17,504	20,166	25,883	29,172	32,515
Invested capital	7,109	11,014	17,901	17,485	18,565
BVPS (Rs)	263.1	291.5	342.4	393.6	454.3
Net Debt/Equity (x)	(0.6)	(0.4)	(0.2)	(0.3)	(0.4)
Net Debt/EBITDA (x)	(4.7)	(1.7)	(0.8)	(1.3)	(1.5)
Interest coverage (x)	0.0	0.1	0.1	0.1	0.1
RoCE (%)	16.6	21.3	20.2	19.6	21.3

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24	FY25E	FY26E
P/E (x)	58.7	29.3	26.9	24.3	20.0
P/CE(x)	47.7	23.5	21.7	19.8	16.8
P/B (x)	5.8	5.3	4.5	3.9	3.4
EV/Sales (x)	4.4	2.5	2.3	1.8	1.6
EV/EBITDA (x)	40.0	19.9	18.4	14.8	12.2
EV/EBIT(x)	48.4	24.3	22.2	17.4	14.1
EV/IC (x)	12.3	8.0	5.2	5.1	4.6
FCFF yield (%)	1.2	0.4	(1.4)	4.3	4.7
FCFE yield (%)	1.3	0.4	(1.4)	3.8	4.3
Dividend yield (%)	0.3	0.3	0.7	0.8	1.0
DuPont-RoE split					
Net profit margin (%)	8.3	9.2	8.9	8.2	8.7
Total asset turnover (x)	1.7	1.9	1.7	1.8	1.8
Assets/Equity (x)	1.0	1.1	1.2	1.2	1.2
RoE (%)	14.3	18.7	18.0	17.2	18.1
DuPont-RoIC					
NOPLAT margin (%)	7.8	8.9	8.8	8.6	8.8
IC turnover (x)	4.5	3.9	2.8	2.7	3.1
RoIC (%)	35.1	34.9	24.4	23.7	27.0
Operating metrics					
Core NWC days	(44.0)	15.2	81.1	69.2	72.3
Total NWC days	(44.0)	15.2	81.1	69.2	72.3
Fixed asset turnover	2.9	3.2	3.4	4.0	4.5
Opex-to-revenue (%)	89.1	87.6	87.5	87.6	87.3

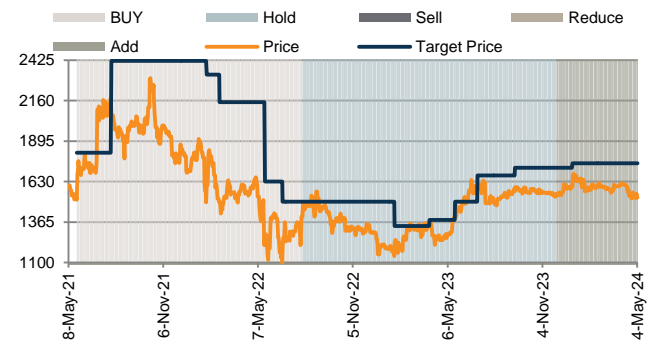
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
31-Mar-24	1,602	1,750	Add	Dipeshkumar Mehta
01-Mar-24	1,594	1,750	Add	Dipeshkumar Mehta
24-Jan-24	1,565	1,750	Add	Dipeshkumar Mehta
31-Dec-23	1,599	1,750	Add	Dipeshkumar Mehta
30-Nov-23	1,550	1,720	Add	Dipeshkumar Mehta
28-Oct-23	1,579	1,720	Hold	Dipeshkumar Mehta
02-Oct-23	1,591	1,720	Hold	Dipeshkumar Mehta
12-Sep-23	1,569	1,720	Hold	Dipeshkumar Mehta
28-Jul-23	1,501	1,670	Hold	Dipeshkumar Mehta
17-Jul-23	1,488	1,670	Hold	Dipeshkumar Mehta
02-Jul-23	1,593	1,670	Hold	Dipeshkumar Mehta
20-May-23	1,398	1,500	Hold	Dipeshkumar Mehta
01-Apr-23	1,366	1,380	Hold	Dipeshkumar Mehta
24-Jan-23	1,230	1,340	Hold	Dipeshkumar Mehta
02-Jan-23	1,216	1,500	Hold	Dipeshkumar Mehta
22-Oct-22	1,308	1,500	Hold	Dipeshkumar Mehta
04-Oct-22	1,392	1,500	Hold	Dipeshkumar Mehta
30-Jul-22	1,401	1,500	Hold	Dipeshkumar Mehta
23-Jun-22	1,194	1,500	Buy	Dipeshkumar Mehta
20-May-22	1,286	1,630	Buy	Dipeshkumar Mehta
01-Apr-22	1,566	2,150	Buy	Dipeshkumar Mehta
22-Feb-22	1,500	2,150	Buy	Dipeshkumar Mehta
28-Jan-22	1,609	2,330	Buy	Dipeshkumar Mehta
27-Aug-21	1,889	2,420	Buy	Dipeshkumar Mehta
29-Jul-21	2,075	2,420	Buy	Dipeshkumar Mehta
02-Jul-21	2,102	1,820	Buy	Dipeshkumar Mehta
24-May-21	1,511	1,820	Buy	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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